


We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
		Printed Name		License Number

CITY OF WALKER
Kent County, Michigan

Comprehensive Annual Financial Report

For the year ended June 30, 2006

CITY OF WALKER
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For the year ended June 30, 2006

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FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

INDEPENDENT AUDITOR'S REPORT

October 13, 2006

The City Commission
City of Walker
Kent County, Michigan

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Walker (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the elected officials and management of the City. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Walker as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Walker. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2006

As management of the City of Walker ("the City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which immediately follow this section.

Financial Highlights

- The City's net assets decreased by \$566,836 (3%).
- Total expenses of the City's programs were \$17,243,200.
- Total revenues, including all program and general revenues, were \$16,676,364.
- At the close of the current year, the City's governmental funds reported combined ending fund balances of \$5,478,483, an increase of \$648,228 from the prior year.
- At the end of the current year, unreserved undesignated fund balance for the General Fund was \$3,001,767, or 23 percent of total General Fund expenditures and transfers out.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the City:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *Government-wide financial statements* that provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the City, reporting the City's operations in more detail than the Government-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as City administration, court, public safety, public works, recreation and cultural, etc. were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2006

Government-wide Statements

The Government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two Government-wide statements report the City's net assets, and how they have changed. Net assets - the difference between the City's assets and liabilities - is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the City's overall health, one should consider additional non-financial factors such as changes in the City's property tax-base and the condition of City buildings and other facilities.

In the Government-wide financial statements, the City's activities are presented as follows:

- *Governmental activities:* The City's basic services are included here, such as general government, public safety, public works, recreation and cultural and other services. State revenue sharing and income and property taxes finance most of these activities.

Government-Wide Financial Statements

The Statement of Net Assets provides financial information on the City as a whole.

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$ 6,307,084	\$ 5,768,909
Noncurrent assets	<u>30,933,066</u>	<u>32,075,639</u>
Total Assets	<u>37,240,150</u>	<u>37,844,548</u>
Liabilities		
Current liabilities	3,920,287	3,874,194
Noncurrent liabilities	<u>15,337,372</u>	<u>15,421,027</u>
Total Liabilities	<u>19,257,659</u>	<u>19,295,221</u>
Net Assets		
Invested in capital assets, net of related debt	14,236,305	15,191,591
Restricted	1,549,932	1,372,793
Unrestricted	<u>2,196,254</u>	<u>1,984,943</u>
Total Net Assets	<u>\$ 17,982,491</u>	<u>\$ 18,549,327</u>

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2006

The Statement of Activities presents changes in net assets from operating results:

	<u>2006</u>	<u>2005</u>
Program Revenues		
Charges for services	\$ 3,402,867	\$ 3,300,408
Operating grants and contributions	1,579,574	1,634,444
Capital grants and contributions	193,504	1,110,551
General Revenues		
Income taxes	7,693,996	7,410,922
Property taxes	1,638,937	1,353,104
State/intergovernmental revenue	1,762,801	2,088,709
Interest earnings	274,000	135,159
Gain (loss) on sale of capital assets	51,813	27,951
Other	78,872	84,679
Total Revenues	<u>16,676,364</u>	<u>17,145,927</u>
Expenses		
General government	4,304,219	4,511,028
Judicial court	909,549	851,564
Public safety	6,321,759	5,994,773
Public works	3,198,424	3,097,518
Community and recreational development	125,762	120,409
Recreation and cultural	1,822,934	1,851,962
Interest on long-term debt	560,553	770,855
Total Expenses	<u>17,243,200</u>	<u>17,198,069</u>
Increase (decrease) in net assets	(566,836)	(52,142)
Net Assets - Beginning of Year	<u>18,549,327</u>	<u>18,601,469</u>
Net Assets - End of Year	<u>\$ 17,982,491</u>	<u>\$ 18,549,327</u>

Financial Analysis of the City as a Whole

The City's financial position is the product of many factors. Growth during the year in income and property tax collections and interest income were the significant contributors to the operating revenue increase. A reduction in state revenue sharing reduced anticipated state shared revenues. Total net assets decreased by only \$566,836 during the year due to these revenue factors and close budgetary control of City expenses.

Income taxes accounted for most of the City's revenue, contributing about 46 cents of every dollar raised. Property taxes contributed 10 percent of revenues. Licenses, permits, fines and forfeitures and other user fees accounted for 20 percent of revenues; another 11 percent came from state and other intergovernmental sources, and the remainder from interest earnings and miscellaneous sources.

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2006

The City's expenses were predominantly related to public safety (37 percent); general government (25 percent); public works (19 percent) and recreational and cultural (11 percent). Interest on long-term debt totaled 3 percent of expenses for the year.

Income tax revenues, our biggest source of revenue, increased by approximately \$283,000 from 2004-05 to 2005-06. Property tax collections increased by approximately \$286,000. The City of Walker continues to grow in the construction of new industrial and commercial buildings and new single family housing. Commercial development increased by \$5,612,912 with 14 new permits. Industrial sites are being built in Walker for a total of \$2,269,900 in new building structures. Permits were issued for 114 new family homes totaling \$9,985,000.

The City continues to apply to the Michigan Department of Transportation for funding to improve roads. The Michigan Department of Transportation, the City of Walker and a local developer all contributed funding to reconstruct the Walker Avenue bridge over I-96. As part of an overall \$20 million reconstruction of I-96 from Bristol Avenue west to Marne, the City of Walker contributed \$585,000 and a local developer contributed \$140,000 to finance widening of the two-lane bridge structure to a six-lane structure. The City issued Michigan Transportation Fund Bonds to cover its share of the project costs.

The State continues to threaten future decreases in revenue sharing. City staff is monitoring the activities of the State and will take measures necessary to account for any decreases.

Financial Analysis of the City's Funds

The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or "major" funds - not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs.

The City utilizes two kinds of funds:

- *Governmental funds:* Most of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the City-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The City is the trustee, or fiduciary, for assets that belong to others, such as property taxes. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and/or paid to those to whom the assets belong. The City excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2006

The City uses funds to record and analyze financial information. The City of Walker's funds are described as follows:

Major Funds

The *General Fund* is our primary operating fund. The General Fund had total revenues of \$13,277,896, total expenditures of \$11,200,733, and transfers to other funds of \$1,624,523. It ended the fiscal year with a fund balance of \$3,001,767, up from \$2,549,127 at June 30, 2005.

The *Major and Local Streets Funds* collect distributions of motor vehicle highway taxes from the State of Michigan for use in maintaining City roads. The Funds had total revenues of \$1,610,555, total expenditures of \$2,003,346, including transfers for debt service, bond proceeds of \$585,000 and inter-fund transfers of \$125,000 resulting in an increase in fund balances of \$192,209 from June 30, 2005. Fund balances at June 30, 2006 consisted of \$1,275,711 in the Major Streets Fund and \$109,081 in the Local Streets Fund.

The *Improvement Revolving Fund* collects connection fees for sewer and water hookups to be used for the construction of extensions to the utility systems benefiting City residents. The Fund had total revenues of \$73,924 and total expenditures of \$37,824. It ended the year with a fund balance of \$548,674, up from \$512,574 at June 30, 2005.

The *Ice and Fitness Program Fund* operates the City's Ice and Fitness Center. The Fund had total revenues of \$1,087,633, transfers from the General Fund for debt service of \$652,740, total expenditures of \$1,044,118 and transfers out for debt service of \$669,240. It ended the year with a fund balance of \$122,969, up from \$95,954 at June 30, 2005.

Nonmajor Funds

The *Special Vice Investigation Fund* collects fines and forfeitures for law enforcement use. Total revenues were \$26,187 and expenditures totaled \$43,814. It ended the year with a fund balance of \$191,358, down from \$208,985 at June 30, 2005.

The *Downtown Development Authority Streetscape Maintenance and Parking Lot Funds* collect special assessments from benefiting property owners to be used for street and parking lot improvements. Total revenues were \$123,515 and expenditures totaled \$150,554. The funds ended the year with a fund balance of \$63,783, down from \$90,822 at June 30, 2005.

The City operates four *Debt Service Funds* which collect special assessments and transfers from other City Funds to be used for bond principal retirement and interest payments. Total revenues were \$25,640, total expenditures were \$1,457,883, and transfers in from other funds totaled \$1,310,943. Other financing sources/uses included bond refunding proceeds and premium of \$11,611,188 and payments to escrow agents of \$11,504,958 to refund the 1998 and 1999 bond issues. The ending fund balances totaled \$165,140, down from \$180,210 at June 30, 2005.

The *Department of Public Works Internal Service Fund* collects equipment rental fees from other City funds to be used for future maintenance and public safety vehicles and equipment. Total revenues were \$504,478, transfers in totaled \$330,080 and expenses were \$821,661 for the year. It ended the year with net assets of \$2,219,704, up from \$2,206,807 at June 30, 2005.

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2006

The *Pension Trust Fund* collects and disburses the annual pension contributions and benefits for the City, and invests and maintains the long-term pension assets reserved for current and future retired City employees. Net assets at June 30, 2006 totaled \$8,465,887 up from \$7,456,826 at June 30, 2005.

The *District Court, Trust, Tax, Flexible Spending and Other Fiduciary Funds* are operated as Agency Funds of the City. The assets of these funds are being held for the future payment to the governmental units and businesses and individuals entitled to the monies. Balances on hand at June 30, 2006 totaled \$941,250.

General Fund Budgetary Highlights

Each City department provides a budget amount at the beginning of the fiscal year. This amount is an expected expenditure amount for each department. Overall, the departments stayed well within their budgets, and the budget was not amended during the fiscal year.

Capital Asset and Debt Administration

Capital Assets

By the end of 2006, the City had a \$41,651,419 investment in a broad range of capital assets, including land, land improvements, roads and sidewalks, buildings and improvements, vehicles and furniture and equipment. (More detailed information about capital assets can be found in the Notes to Basic Financial Statements.)

Capital asset purchases totaled \$367,185 for the fiscal year with accumulated depreciation increasing \$1,614,226. The net book value of capital assets at June 30, 2006 is detailed as follows:

Land	\$ 2,820,745
Land improvements	1,069,687
Roads and sidewalks	6,513,189
Buildings and improvements	15,294,262
Office furnishings	157,403
Other tools and equipment	2,494,619
Vehicles	<u>204,420</u>
Net Capital Assets	<u><u>\$ 28,554,325</u></u>

Long-Term Debt

At year end, the City had \$16,784,953 in bonds (general obligation and special assessment), loans, installment purchase agreements, capital leases and unused vacation and sick pay. Debt increases were \$12,449,942 during the current year, including \$11,150,000 in refunding bond issued, and debt payments were \$12,422,349 during the current year. During the year, the City refunded the 1998 and 1999 Building Authority bond issues, resulting in a present value savings in future interest costs of \$521,811. There is more detailed information about long-term liabilities in the Notes to Basic Financial Statements.

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2006

Factors Bearing on the City's Future

At the time these financial statements were prepared and audited, the City was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The City's initial General Fund budget for 2006-07 anticipates a net reduction in year end fund balance of \$267,502. This estimate reflects property tax growth within the City, continuing reductions in state shared revenues and a continuing effort to control/reduce costs within the City, while continuing to maintain a high quality of taxpayer service.

Contacting the City's Financial Management

This financial report is designed to provide the City's citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager, City of Walker, 4243 Remembrance Rd. NW, Walker, MI, 49534.

BASIC FINANCIAL STATEMENTS

CITY OF WALKER
Statement of Net Assets
June 30, 2006

	Primary Governmental Activities	Component Units
Assets		
Current Assets		
Cash	\$ 1,800	\$ -
Cash equivalents, deposits and investments (Note B)	4,755,023	1,957,855
Receivables:		
Income taxes	146,007	-
Accounts	26,414	-
Accrued interest	16,967	-
Special assessments, current portion	60,000	-
Internal balances (Note D)	91,160	-
Due from component units	56,913	-
Due from other governmental units	861,304	-
Inventories (Note A)	190,460	-
Prepaid expenses	101,036	110
Total Current Assets	<u>6,307,084</u>	<u>1,957,965</u>
Noncurrent Assets		
Capital assets, net of accumulated depreciation (Note E)	28,554,325	2,058,986
Accounts receivable	-	285,200
Special assessments, net of current portion	1,579,225	-
Unamortized bond issuance costs	195,808	29,495
Intangible assets (Note E)	603,708	-
Total Noncurrent Assets	<u>30,933,066</u>	<u>2,373,681</u>
Total Assets	<u>37,240,150</u>	<u>4,331,646</u>
Liabilities		
Current Liabilities		
Accounts payable	409,283	51,708
Refundable income taxes	30,982	-
Due to primary government	-	56,913
Accrued payroll	145,917	-
Accrued interest payable	108,364	22,765
Deferred revenue	1,525,850	-
Net pension liability (Note H)	252,310	-
Current portion of noncurrent liabilities (Note F)	1,447,581	354,555
Total Current Liabilities	<u>3,920,287</u>	<u>485,941</u>
Noncurrent Liabilities (Notes A, F)		
Michigan Transportation Fund bonds payable	1,730,000	-
Building Authority bonds payable	12,955,000	-
Downtown Development Authority bonds payable	-	3,100,000
Special assessment bonds payable	160,000	-
Loan payable	-	241,165
Land contract payable	-	122,051
Installment purchase agreements payable	150,789	215,000
Capital lease payable	13,383	-
Accumulated vacation pay	404,175	-
Accumulated sick leave	1,371,606	-
Current portion of noncurrent liabilities (Note F)	(1,447,581)	(354,555)
Total Noncurrent Liabilities	<u>15,337,372</u>	<u>3,323,661</u>
Total Liabilities	<u>19,257,659</u>	<u>3,809,602</u>
Net Assets		
Invested in capital assets, net of related debt	14,236,305	(1,434,339)
Restricted for:		
Roads	1,384,792	-
Debt Service	165,140	-
Unrestricted	2,196,254	1,956,383
Total Net Assets	<u>\$ 17,982,491</u>	<u>\$ 522,044</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Statement of Activities
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants	Capital Grants	Primary Government	Componen Units
Primary Government						
Governmental activities:						
General government	\$4,304,219	\$ 645,441	\$ -	\$ -	\$(3,658,778)	\$ -
Judicial court	909,549	-	-	-	(909,549)	-
Public safety	6,321,759	1,550,741	-	183,204	(4,587,814)	-
Public works	3,198,424	119,052	1,579,574	10,300	(1,489,498)	-
Community and economic development	125,762	-	-	-	(125,762)	-
Recreation and cultural	1,822,934	1,087,633	-	-	(735,301)	-
Interest on long-term debt	560,553	-	-	-	(560,553)	-
Total Primary Government	<u>\$17,243,200</u>	<u>\$3,402,867</u>	<u>\$1,579,574</u>	<u>\$193,504</u>	<u>(12,067,255)</u>	<u>-</u>
Component Units						
Downtown Development Authority	841,232	-	-	-	-	(841,232)
Brownfield Redevelopment Authority	72,196	-	-	-	-	(72,196)
Total Component Units	<u>\$ 913,428</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(913,428)</u>
General revenues:						
Income taxes					7,693,996	-
Property taxes					1,638,937	492,201
State/intergovernmental sources					1,762,801	-
Interest and investment earnings					274,000	27,700
Gain on sale of capital assets					51,813	-
Other					78,872	-
Total General Revenues					<u>11,500,419</u>	<u>519,901</u>
Change in Net Assets					<u>(566,836)</u>	<u>(393,527)</u>
Net Assets - Beginning of Year					<u>18,549,327</u>	<u>915,571</u>
Net Assets - End of Year					<u>\$17,982,491</u>	<u>\$ 522,044</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Balance Sheet
Governmental Funds
June 30, 2006

		Special Revenue			
	General	Major Streets	Local Streets	Improvement Revolving	
Assets					
Cash	\$ 500	\$ -	\$ -	\$ -	
Cash equivalents, deposits and investments (Note B)	2,320,045	1,134,446	74,741	561,341	
Receivables:					
Income taxes	146,007	-	-	-	
Accounts	4,769	-	-	3,756	
Special assessments	-	-	-	1,566,895	
Accrued interest	11,897	1,241	-	956	
Due from other funds (Note D)	91,160	-	-	-	
Due from component units	56,913	-	-	-	
Due from other governmental units	612,184	184,374	64,746	-	
Inventories (Note A)	-	-	-	-	
Prepaid expenditures	101,036	-	-	-	
Total Assets	\$ 3,344,511	\$ 1,320,061	\$ 139,487	\$2,132,948	
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 187,418	\$ 35,470	\$ 26,599	\$ 22,737	
Refundable income taxes	30,982	-	-	-	
Accrued payroll	124,344	8,880	3,807	-	
Deferred revenue	-	-	-	1,561,537	
Total Liabilities	342,744	44,350	30,406	1,584,274	
Fund Balances					
Reserved for:					
Debt service	-	-	-	-	
Unreserved:					
Undesignated, reported in:					
General fund	3,001,767	-	-	-	
Special revenue funds	-	1,275,711	109,081	548,674	
Total Fund Balances	3,001,767	1,275,711	109,081	548,674	
Total Liabilities and Fund Balances	\$ 3,344,511	\$ 1,320,061	\$ 139,487	\$2,132,948	

See accompanying notes to basic financial statements.

<u>Ice and Fitness Program</u>	<u>Other Governmental</u>	<u>Total</u>
\$ 1,300	\$ -	\$ 1,800
22,571	428,133	4,541,277
-	-	146,007
17,889	-	26,414
-	72,330	1,639,225
-	2,873	16,967
-	-	91,160
-	-	56,913
-	-	861,304
154,344	-	154,344
-	-	101,036
<u>\$ 196,104</u>	<u>\$ 503,336</u>	<u>\$ 7,636,447</u>
\$ 66,949	\$ 10,722	\$ 349,895
-	-	30,982
6,186	-	143,217
-	72,333	1,633,870
<u>73,135</u>	<u>83,055</u>	<u>2,157,964</u>
-	165,140	165,140
-	-	3,001,767
122,969	255,141	2,311,576
<u>122,969</u>	<u>420,281</u>	<u>5,478,483</u>
<u>\$ 196,104</u>	<u>\$ 503,336</u>	<u>\$ 7,636,447</u>

CITY OF WALKER
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total governmental fund balances		\$ 5,478,483
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$36,221,495 and accumulated depreciation is \$9,890,716.		26,330,779
Intangible assets reported in governmental activities are not financial resources and are not reported in the funds.		603,708
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.		195,808
Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:		
Special assessments receivable		108,020
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Michigan Transportation Fund bonds	(1,730,000)	
Building Authority bonds	(12,955,000)	
Special assessment bonds	(160,000)	
Accumulated vacation pay	(404,175)	
Accumulated sick leave	(1,344,162)	(16,593,337)
		<hr/>
Accrued interest is not included as a liability in governmental funds.		(108,364)
Net pension liability reported in the Statement of Net Assets but not in the governmental funds.		(252,310)
Internal Service Funds are included as part of governmental activities.		2,219,704
		<hr/>
Total net assets - governmental activities		\$ 17,982,491

See accompanying notes to basic financial statements.

CITY OF WALKER
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

		Special Revenue		
	General	Major Streets	Local Streets	Improvement Revolving
Revenues				
Income taxes	\$ 7,693,996	\$ -	\$ -	\$ -
Property taxes	1,638,937	-	-	-
Licenses and permits	524,295	-	-	-
Federal sources	183,204	-	-	-
State sources	1,746,578	1,166,828	412,746	-
Intergovernmental sources	16,223	-	-	-
Charges for services	200,016	-	-	-
Fines and forfeitures	1,008,246	-	-	-
Interest and rentals	189,697	28,086	2,895	23,550
Other revenue	76,704	-	-	50,374
Total Revenues	13,277,896	1,194,914	415,641	73,924
Expenditures				
Current:				
General government	1,875,567	-	-	-
Judicial court	845,216	-	-	-
Public safety	5,883,659	-	-	-
Public works	406,358	1,040,562	479,126	-
Community and economic development	125,762	-	-	-
Recreation and cultural	428,869	-	-	-
Other	1,555,313	-	-	-
Capital outlay	79,989	224,309	124,398	37,824
Debt service:				
Principal repayment	-	65,000	-	-
Interest and fiscal charges	-	47,963	-	-
Bond issuance costs	-	21,988	-	-
Underwriter's discount	-	-	-	-
Total Expenditures	11,200,733	1,399,822	603,524	37,824
Excess (Deficiency) of Revenues Over Expenditures	2,077,163	(204,908)	(187,883)	36,100
Other Financing Sources (Uses)				
Bonds issued	-	585,000	-	-
Bond premium	-	-	-	-
Transfers in	-	-	125,000	-
Payments to escrow agent	-	-	-	-
Transfers out	(1,624,523)	(125,000)	-	-
Total Other Financing Sources (Uses)	(1,624,523)	460,000	125,000	-
Net Change in Fund Balances	452,640	255,092	(62,883)	36,100
Fund Balances, July 1	2,549,127	1,020,619	171,964	512,574
Fund Balances, June 30	\$ 3,001,767	\$ 1,275,711	\$ 109,081	\$ 548,674

See accompanying notes to basic financial statements.

Ice and Fitness Program	Other Governmental	Total
\$ -	\$ -	\$ 7,693,996
-	-	1,638,937
-	-	524,295
-	-	183,204
-	-	3,326,152
-	18,200	34,423
711,016	-	911,032
-	-	1,008,246
350,655	24,700	619,583
25,962	132,442	285,482
1,087,633	175,342	16,225,350
-	-	1,875,567
-	43,814	889,030
-	-	5,883,659
-	150,554	2,076,600
-	-	125,762
1,044,118	-	1,472,987
-	-	1,555,313
-	-	466,520
-	720,000	785,000
-	520,845	568,808
-	144,563	166,551
-	72,475	72,475
1,044,118	1,652,251	15,938,272
43,515	(1,476,909)	287,078
-	11,150,000	11,735,000
-	461,188	461,188
652,740	1,310,943	2,088,683
-	(11,504,958)	(11,504,958)
(669,240)	-	(2,418,763)
(16,500)	1,417,173	361,150
27,015	(59,736)	648,228
95,954	480,017	4,830,255
\$ 122,969	\$ 420,281	\$ 5,478,483

CITY OF WALKER
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 648,228
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital outlays	\$ -	
Depreciation expense	<u>(1,288,004)</u>	(1,288,004)

Governmental funds report intangible assets as expenditures; however in the Statement of Activities, these costs are allocated over their estimated useful lives as amortization.	(39,223)
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Net bond premium and refunding and issuance costs are not recognized/ expensed but are amortized over the life of the new bond issue.	195,808
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds: Special assessments	(52,214)
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Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets.	(11,735,000)
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Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:

Repayment of Michigan Transportation Fund bonds	65,000	
Repayment of building authority bonds	11,750,000	
Repayment of special assessment bonds	<u>35,000</u>	11,850,000

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid.	8,255
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In the Statement of Net Assets, accumulated vacation/sick pay is measured by the amount earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$676,029) exceeded the amounts used/paid (\$508,446).	(167,583)
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Internal Service Funds are included as part of governmental activities.	<u>12,897</u>
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Total changes in net assets - governmental activities	<u>\$ (566,836)</u>
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See accompanying notes to basic financial statements.

CITY OF WALKER
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Income taxes	\$ 7,500,000	\$ 7,500,000	\$ 7,693,996	\$ 193,996
Property taxes	1,659,200	1,659,200	1,638,937	(20,263)
Licenses and permits	526,350	526,350	524,295	(2,055)
Federal sources	6,000	6,000	183,204	177,204
State sources	1,705,000	1,705,000	1,746,578	41,578
Intergovernmental sources	10,000	10,000	16,223	6,223
Charges for services	230,456	230,456	200,016	(30,440)
Fines and forfeitures	955,700	955,700	1,008,246	52,546
Interest and rentals	65,150	65,150	189,697	124,547
Other revenue	68,900	68,900	76,704	7,804
Total Revenues	12,726,756	12,726,756	13,277,896	551,140
Expenditures				
Current:				
General government:				
Legislative	62,900	62,900	59,212	3,688
City administration	606,110	606,110	706,405	(100,295)
Finance	107,400	107,400	101,909	5,491
Clerk	176,692	176,692	172,427	4,265
Treasurer	105,200	105,200	92,795	12,405
Income tax administration	223,780	223,780	212,429	11,351
Assessor	165,308	165,308	167,529	(2,221)
Elections	29,000	29,000	7,132	21,868
Buildings and grounds	370,350	370,350	355,729	14,621
Total general government	1,846,740	1,846,740	1,875,567	(28,827)
Judicial court:				
District court	866,465	866,465	845,216	21,249
Public safety:				
Law enforcement	4,341,433	4,341,433	4,091,519	249,914
Fire department	1,329,127	1,329,127	1,397,144	(68,017)
Inspections	400,443	400,443	394,996	5,447
Total public safety	6,071,003	6,071,003	5,883,659	187,344
Public works:				
Storm sewer drains	80,000	80,000	27,451	52,549
Engineering	250,696	250,696	208,549	42,147
Street lighting	170,000	170,000	170,358	(358)
Total public works	500,696	500,696	406,358	94,338
Community and economic development:				
Planning	129,300	129,300	122,292	7,008
Zoning	4,500	4,500	3,470	1,030
Total community and economic development	133,800	133,800	125,762	8,038

(Continued)

CITY OF WALKER
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Recreation and cultural:				
Parks	\$ 288,271	\$ 288,271	\$ 259,913	\$ 28,358
Recreation	186,011	186,011	153,013	32,998
Cultural	20,000	20,000	15,943	4,057
Total recreation and cultural	494,282	494,282	428,869	65,413
Other	1,512,252	1,512,252	1,555,313	(43,061)
Capital outlay	82,000	82,000	79,989	2,011
Total Expenditures	11,507,238	11,507,238	11,200,733	306,505
Excess of Revenues Over Expenditures	1,219,518	1,219,518	2,077,163	857,645
Other Financing Sources (Uses)				
Transfers out	(1,617,228)	(1,617,228)	(1,624,523)	(7,295)
Net Change in Fund Balances	(397,710)	(397,710)	452,640	850,350
Fund Balances, July 1	2,549,127	2,549,127	2,549,127	-
Fund Balances, June 30	\$ 2,151,417	\$ 2,151,417	\$ 3,001,767	\$ 850,350

See accompanying notes to basic financial statements.

CITY OF WALKER
Major Streets Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budget	Actual	Variance - Positive (Negative)
Revenues			
State sources	\$ 1,230,000	\$ 1,166,828	\$ (63,172)
Interest and rentals	27,000	28,086	1,086
Total Revenues	<u>1,257,000</u>	<u>1,194,914</u>	<u>(62,086)</u>
Expenditures			
Current:			
Public works	1,010,818	1,040,562	(29,744)
Capital outlay	275,000	224,309	50,691
Debt service:			
Principal repayment	65,000	65,000	-
Interest and fiscal charges	48,000	47,963	37
Bond issuance costs	18,000	21,988	(3,988)
Total Expenditures	<u>1,416,818</u>	<u>1,399,822</u>	<u>16,996</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(159,818)</u>	<u>(204,908)</u>	<u>(45,090)</u>
Other Financing Sources (Uses)			
Bond proceeds	-	585,000	585,000
Transfers out	(125,000)	(125,000)	-
Total Other Financing Sources (Uses)	<u>(125,000)</u>	<u>460,000</u>	<u>585,000</u>
Net Change in Fund Balances	<u>(284,818)</u>	<u>255,092</u>	<u>539,910</u>
Fund Balances, July 1	<u>1,020,619</u>	<u>1,020,619</u>	<u>-</u>
Fund Balances, June 30	<u>\$ 735,801</u>	<u>\$ 1,275,711</u>	<u>\$ 539,910</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Local Streets Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budget	Actual	Variance - Positive (Negative)
Revenues			
State sources	\$ 420,000	\$ 412,746	\$ (7,254)
Interest and rentals	1,000	2,895	1,895
Total Revenues	<u>421,000</u>	<u>415,641</u>	<u>(5,359)</u>
Expenditures			
Current:			
Public works	468,385	479,126	(10,741)
Capital outlay	130,000	124,398	5,602
Total Expenditures	<u>598,385</u>	<u>603,524</u>	<u>(5,139)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(177,385)</u>	<u>(187,883)</u>	<u>(10,498)</u>
Other Financing Sources			
Transfers in	125,000	125,000	-
Net Change in Fund Balances	(52,385)	(62,883)	(10,498)
Fund Balances, July 1	171,964	171,964	-
Fund Balances, June 30	<u>\$ 119,579</u>	<u>\$ 109,081</u>	<u>\$ (10,498)</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Improvement Revolving Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Interest and rentals	\$ 9,900	\$ 23,550	\$ 13,650
Other revenue	28,736	50,374	21,638
Total Revenues	38,636	73,924	35,288
Expenditures			
Capital outlay	95,000	37,824	57,176
Net Change in Fund Balances	(56,364)	36,100	92,464
Fund Balances, July 1	512,574	512,574	-
Fund Balances, June 30	<u>\$ 456,210</u>	<u>\$ 548,674</u>	<u>\$ 92,464</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Ice and Fitness Program Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Charges for services	\$ 729,560	\$ 711,016	\$ (18,544)
Interest and rentals	390,150	350,655	(39,495)
Other revenue	33,150	25,962	(7,188)
Total Revenues	1,152,860	1,087,633	(65,227)
Expenditures			
Current:			
Recreation and cultural	1,087,860	1,044,118	43,742
Excess (Deficiency) of Revenues Over Expenditures	65,000	43,515	(21,485)
Other Financing Sources (Uses)			
Transfers in	625,375	652,740	27,365
Transfers out	(690,375)	(669,240)	21,135
Total Other Financing Sources (Uses)	(65,000)	(16,500)	48,500
Net Change in Fund Balances	-	27,015	27,015
Fund Balances, July 1	95,954	95,954	-
Fund Balances, June 30	\$ 95,954	\$ 122,969	\$ 27,015

See accompanying notes to basic financial statements.

CITY OF WALKER
Statement of Net Assets
Proprietary Fund
June 30, 2006

	Internal Service
Assets	
Current Assets	
Cash equivalents, deposits and investments (Note B)	\$ 213,746
Inventories (Note A)	36,116
Total Current Assets	<u>249,862</u>
Noncurrent Assets	
Capital assets (Note E)	5,429,924
Less accumulated depreciation	<u>(3,206,378)</u>
Total Noncurrent Assets	<u>2,223,546</u>
Total Assets	<u>2,473,408</u>
Liabilities	
Current Liabilities	
Accounts payable	59,388
Accrued expenses:	
Payroll	2,700
Vacation and sick pay	27,444
Current portion of noncurrent liabilities	<u>56,581</u>
Total Current Liabilities	<u>146,113</u>
Noncurrent Liabilities	
Installment purchase agreement payable	150,789
Capital lease payable	13,383
Less current portion	<u>(56,581)</u>
Total Noncurrent Liabilities	<u>107,591</u>
Total Liabilities	<u>253,704</u>
Net Assets	
Invested in capital assets, net of related debt	2,059,374
Unrestricted	<u>160,330</u>
Total Net Assets	<u><u>\$ 2,219,704</u></u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the year ended June 30, 2006

	Internal Service
Operating Revenues	
Equipment rental fees	\$ 445,200
Licenses and permits	225
Total Revenues	<u>445,425</u>
Operating Expenses	
Salaries	138,571
Supplies	12,596
Gas and oil	182,992
Uniforms	17,562
Training	3,461
Vehicle maintenance	109,508
Equipment maintenance	8,224
Equipment rental	8,430
Miscellaneous	1,334
Small equipment	2,000
Interest and fiscal charges	10,761
Depreciation	326,222
Total Operating Expenses	<u>821,661</u>
Operating Loss	<u>(376,236)</u>
Nonoperating Revenues	
Transfers in	330,080
Interest earnings	5,072
Gain on disposition of capital assets	51,813
Other	2,168
Total Nonoperating Revenues	<u>389,133</u>
Change in Net Assets	12,897
Net assets, Beginning of Year	<u>2,206,807</u>
Net assets, End of Year	<u><u>\$ 2,219,704</u></u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Statement of Cash Flows
Proprietary Fund
For the year ended June 30, 2006

	Internal Service
Cash Flows From Operating Activities	
Receipts from customers	\$ 445,425
Payments to suppliers	(310,724)
Payments to employees	(137,969)
	<u>(3,268)</u>
Net Cash Provided By (Used For) Operating Activities	<u>(3,268)</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from sale of capital assets	30,342
Loan proceeds	38,913
Transfers in	330,800
Principal paid on long-term debt	(66,863)
Purchase of capital assets	(367,185)
	<u>(33,993)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	<u>(33,993)</u>
Cash Flows From Investing Activities	
Interest received	5,072
	<u>5,072</u>
Net Increase (Decrease) In Cash and Cash Equivalents	<u>(32,189)</u>
Cash and Cash Equivalents, Beginning of Year	<u>245,935</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 213,746</u></u>
Reconciliation of Operating Income (Loss) To Net Cash Provided By (Used For) Operating Activities	
Operating loss	\$ (376,236)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	326,222
Changes in assets and liabilities:	
(Increase) decrease in inventories	(3,640)
Increase (decrease) in accounts payable	49,784
Increase (decrease) in accrued expenses	602
	<u>372,968</u>
Net Cash Provided By (Used For) Operating Activities	<u><u>\$ (3,268)</u></u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2006

	<u>Pension Trust Fund*</u>	<u>Agency Funds</u>
Assets		
Cash equivalents, deposits and investments (Note B)	\$ 8,406,228	\$ 940,300
Accrued interest receivable	<u>59,659</u>	<u>950</u>
Total Assets	<u>8,465,887</u>	<u>\$ 941,250</u>
Liabilities		
Accounts payable	\$ -	\$ 2,201
Due to other funds (Note D)	-	91,160
Due to other governmental units	-	141,292
Escrow/customer deposits	<u>-</u>	<u>706,597</u>
Total Liabilities	<u>-</u>	<u>\$ 941,250</u>
Net Assets		
Held in trust for pensions	<u>\$ 8,465,887</u>	

*Reported as of July 31, 2005

See accompanying notes to basic financial statements.

CITY OF WALKER
Fiduciary Fund
Statement of Changes In Fiduciary Net Assets
For the year ended June 30, 2006

	Pension Trust Fund*
Additions	
Investment income:	
Interest and dividends	\$ 233,803
Net increase in fair value of investments	494,408
	<u>728,211</u>
Net investment income	728,211
Employer contributions	1,132,536
	<u>1,860,747</u>
Total Additions	
Deductions	
Benefit payments	825,505
Administrative expenses and other	26,181
	<u>851,686</u>
Total Deductions	
	<u>1,009,061</u>
Change In Net Assets	
	1,009,061
Net Assets, Beginning of Year	7,456,826
	<u>7,456,826</u>
Net Assets, End of Year	<u>\$ 8,465,887</u>

*Reported as of July 31, 2005

See accompanying notes to basic financial statements.

CITY OF WALKER
Component Units
Combining Statement of Net Assets
June 30, 2006

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Assets			
Current Assets			
Cash equivalents, deposits and investments (Note B)	\$ 1,947,126	\$ 10,729	\$ 1,957,855
Accrued interest receivable	110	-	110
Total Current Assets	<u>1,947,236</u>	<u>10,729</u>	<u>1,957,965</u>
Noncurrent Assets			
Capital assets, net of accumulated depreciation (Note E)	2,058,986	-	2,058,986
Accounts receivable	50,000	235,200	285,200
Unamortized bond issuance costs	29,495	-	29,495
Total Noncurrent Assets	<u>2,138,481</u>	<u>235,200</u>	<u>2,373,681</u>
Total Assets	<u>4,085,717</u>	<u>245,929</u>	<u>4,331,646</u>
Liabilities			
Current Liabilities			
Accounts payable	51,708	-	51,708
Due to primary government	56,913	-	56,913
Accrued interest payable	21,183	1,582	22,765
Current portion of noncurrent liabilities (Note F)	330,081	24,474	354,555
Total Current Liabilities	<u>459,885</u>	<u>26,056</u>	<u>485,941</u>
Noncurrent Liabilities (Notes A, F)			
Downtown Development Authority bonds payable	3,100,000	-	3,100,000
Loan payable	-	241,165	241,165
Land contract payable	122,051	-	122,051
Installment purchase agreement payable	215,000	-	215,000
Less current portion of noncurrent liabilities	(330,081)	(24,474)	(354,555)
Total Noncurrent Liabilities	<u>3,106,970</u>	<u>216,691</u>	<u>3,323,661</u>
Total Liabilities	<u>3,566,855</u>	<u>242,747</u>	<u>3,809,602</u>
Net Assets			
Invested in capital assets, net of related debt	(1,428,374)	(5,965)	(1,434,339)
Unrestricted	1,947,236	9,147	1,956,383
Total Net Assets	<u>\$ 518,862</u>	<u>\$ 3,182</u>	<u>\$ 522,044</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Component Units
Combining Statement of Activities
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants	Downtown Development Authority	Brownfield Redevelopment Authority	
Downtown Development Authority						
Public works	\$ 778,721	\$ -	\$ -	\$ (778,721)	\$ -	\$(778,721)
Interest expense	62,511			(62,511)	-	(62,511)
Brownfield Redevelopment Authority						
Public works	66,389	-	-	-	(66,389)	(66,389)
Interest expense	5,807	-	-	-	(5,807)	(5,807)
Total Component Units	<u>\$ 913,428</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(841,232)</u>	<u>(72,196)</u>	<u>(913,428)</u>
General revenues:						
Property taxes levied for:						
Downtown Development Authority				421,722	-	421,722
Brownfield Redevelopment Authority				-	70,479	70,479
Interest earnings				27,136	564	27,700
Total General Revenues				<u>448,858</u>	<u>71,043</u>	<u>519,901</u>
Change in Net Assets				(392,374)	(1,153)	(393,527)
Net Assets - Beginning of Year				<u>911,236</u>	<u>4,335</u>	<u>915,571</u>
Net Assets - End of Year				<u>\$ 518,862</u>	<u>\$ 3,182</u>	<u>\$ 522,044</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Component Units
Combining Balance Sheet
June 30, 2006

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Assets			
Cash equivalents, deposits and investments (Note B)	\$ 1,947,126	\$ 10,729	\$ 1,957,855
Accounts receivable	50,000	-	50,000
Accrued interest receivable	110	-	110
Total Assets	<u>\$ 1,997,236</u>	<u>\$ 10,729</u>	<u>\$ 2,007,965</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 51,708	\$ -	\$ 51,708
Due to primary government	56,913	-	56,913
Total Liabilities	<u>108,621</u>	<u>-</u>	<u>108,621</u>
Fund Balances			
Unreserved:			
Undesignated, reported in:			
Special revenue funds	1,888,615	10,729	1,899,344
Total Fund Balances	<u>1,888,615</u>	<u>10,729</u>	<u>1,899,344</u>
Total Liabilities and Fund Balances	<u>\$ 1,997,236</u>	<u>\$ 10,729</u>	<u>\$ 2,007,965</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Component Units
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2006

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Revenues			
Property taxes	\$ 421,722	\$ 100,379	\$ 522,101
Interest and rentals	27,136	564	27,700
Total Revenues	<u>448,858</u>	<u>100,943</u>	<u>549,801</u>
Expenditures			
Current:			
Public works	75,823	66,389	142,212
Capital outlay	931,584	-	931,584
Debt service:			
Principal repayment	217,949	23,935	241,884
Interest and fiscal charges	54,150	5,965	60,115
Total Expenditures	<u>1,279,506</u>	<u>96,289</u>	<u>1,375,795</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(830,648)</u>	<u>4,654</u>	<u>(825,994)</u>
Other Financing Sources (Uses)			
Bonds issued	2,360,000	-	2,360,000
Land contract proceeds	125,000	-	125,000
Bond discount	(29,495)	-	(29,495)
Total Other Financing Sources (Uses)	<u>2,455,505</u>	<u>-</u>	<u>2,455,505</u>
Net Change In Fund Balances	1,624,857	4,654	1,629,511
Fund Balances, July 1	<u>263,758</u>	<u>6,075</u>	<u>269,833</u>
Fund Balances, June 30	<u><u>\$ 1,888,615</u></u>	<u><u>\$ 10,729</u></u>	<u><u>\$ 1,899,344</u></u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

Note A – Summary of Significant Accounting Policies

The City of Walker (the “City”) is governed by a seven member elected Commission and administered by a Manager appointed by the aforementioned Commission. The City provides, or contributes to the providing of, the following services to its residents as provided by statute: public safety (police, fire, inspection), highways and streets, parks and recreation, cultural, public improvements, planning and zoning, general administrative and other services.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the City’s accounting policies are described below.

1. Reporting Entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

The component units discussed below are included in the reporting entity because of the significance of their operational or financial relationships to the City.

59th District Court
City of Walker Building Authority
City of Walker Downtown Development Authority
City of Walker Brownfield Redevelopment Authority

Blended Component Units

Entities whose governing bodies are substantially the same as the governing body of the primary government, or those which provide services entirely, or virtually entirely, for the benefit of the primary government, are disclosed as blended component units.

The 59th District Court has been blended into the General Fund of the City’s financial statements. Although the Court operates under the direction of the district judge, it is reported as if it was part of the primary government because of the fiduciary responsibility the City retains relative to the operations of the Court.

The *City of Walker Building Authority* is governed by a five-member board that is appointed by the City Commission. Although it is legally separate from the City, it is reported as if it was part of the primary government because its primary purpose is to monitor and finance the construction of the City’s public buildings.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, the City of Walker remains financially accountable for these entities, or the nature and significance of the relationship between these entities and the City of Walker is such that exclusion of these entities would render the financial statements misleading or incomplete.

The *City of Walker Downtown Development Authority* is responsible for the improvement and ongoing maintenance and debt service of the Downtown Development Improvement District. The Authority's governing body, which consists of eight individuals, is selected by the City Commission. Separate financial statements are not prepared for the Downtown Development Authority.

The *City of Walker Brownfield Redevelopment Authority* was created to account for the redevelopment of environmentally contaminated and other underutilized sites within the City. The Authority's governing body, which consists of five individuals, is selected by the City Commission. Separate financial statements are not prepared for the Brownfield Redevelopment Authority.

2. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the City as a whole. The reported information includes all of the nonfiduciary activities of the City. The City does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the City. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The City does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Income taxes, property taxes, state revenue sharing, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Fund Financial Statements - Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government except those that are required to be accounted for in another fund.

The *Major Streets Special Revenue Fund* accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

The *Local Streets Special Revenue Fund* accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

The *Improvement Revolving Special Revenue Fund* accounts for the resources of special assessment proceeds that are used for improvements on special assessment districts.

The *Ice and Fitness Special Revenue Fund* provides a recreation facility for the residents of the City.

The City reports the following internal service fund:

The *Capital Equipment Replacement Internal Service Fund* is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, primarily on a cost reimbursement basis. The Capital Equipment Replacement Fund rents vehicles and equipment to the police, fire and department of public works.

Additionally, the City reports the following funds:

The *Special Vice Investigation Special Revenue Fund* accounts for fines and forfeitures collected to be used for law enforcement purposes.

The *DDA Streetscape Maintenance Special Revenue Fund* accounts for special assessments levied on benefiting properties to be used for street and sidewalk improvements.

The *DDA Parking Lot Special Revenue Fund* accounts for special assessments levied on benefiting properties to be used for parking lot improvements.

The various *Debt Service Funds* account for the collections of special assessments and contributions from benefiting City funds to be used in retiring the outstanding long-term debt of the City.

The *District Court Agency Fund* accounts for fines and forfeitures collected and the disbursement to the governmental agencies entitled to the monies.

The *Trust Account Agency Fund* accounts for the collection of bonds and deposits and the payment to the governmental units or other persons entitled to receive these funds.

The *Tax Account Agency Fund* accounts for the collection of current and delinquent property taxes and the payment to the governmental units or other persons entitled to receive these funds.

The various other *Agency Funds* account for deposits and withholdings and the disbursement to the organizations and individuals entitled to the monies.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Income taxes are recognized as revenues in the year they are collected, or deemed collectible. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the government-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Taxes, intergovernmental revenues and interest associated with current period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

Expenditures are recorded when the liability is incurred, as under accrual accounting, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt and claims and judgments are recorded only when the payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The General and Special Revenue Funds are subject to legal budgetary accounting controls and are budgeted annually. The City utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- The budgets are generated with input from the City Manager, the various department heads, the Clerk, and the City Commission.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

- The completed budgets are then presented to City electors at a public budget hearing in May, at which time taxpayer comments and recommendations are heard. These operating budgets include proposed expenditures and the means of financing them for the General Fund and Special Revenue Funds.
- Prior to July 1, the budgets are legally enacted through passage of an appropriations resolution.
- The budget may only be amended by action of the City Commission.
- Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
- Budget appropriations lapse at fiscal year-end.
- The original General and Special Revenue Funds budgets were not amended during the year.
- The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level for each individual fund.

5. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

6. Inventories

Inventories, consisting of goods held for sale and maintenance supplies, are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

7. Capital Assets

Capital assets, which include land, land improvements, roads and sidewalks, buildings and improvements, vehicles, office furnishings and other tools and equipment, are reported in the government-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$2,500 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

Roads and sidewalks, land improvements, buildings and improvements, vehicles, office furnishings and tools and equipment are depreciated using the straight-line method over the following estimated useful lives:

Roads and sidewalks	5-50 years
Land improvements	5-30 years
Buildings and improvements	7-40 years
Vehicles	2-5 years
Office furnishings	5-7 years
Other tools and equipment	5-20 years

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

9. Accumulated Vacation Pay and Sick Leave

Accumulated vacation pay and sick leave at June 30, 2006 has been computed and recorded in the financial statements of the City. It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Seventy-five percent of the accumulated sick leave balance is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations at year end.

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as transfers in or out. Transfers between governmental funds are eliminated in the Statement of Activities. Transfers in the fund financial statements are reported as other financing sources/uses.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a governmental unit in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a governmental unit in Michigan.

Cash Equivalents and Deposits

Depositories actively used by the City during the year are detailed as follows:

1. Chemical Bank
2. Huntington National Bank
3. LaSalle Bank
4. Macatawa Bank
5. Mercantile Bank

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

6. Flagstar Bank
7. Select Bank
8. Bank of Holland
9. Choice One Bank

Balances at June 30, 2006 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Primary Government:	
Governmental Funds	\$ 4,491,665
Fiduciary Funds	520,796
Component Units	<u>1,957,855</u>
	<u>\$ 6,970,316</u>

Cash equivalents consist of bank public funds checking, savings and money market accounts. Deposits consist of certificates of deposit.

June 30, 2006 balances are detailed as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Cash equivalents	\$ 2,948,856	\$ 1,232,855
Deposits	<u>2,063,605</u>	<u>725,000</u>
	<u>\$ 5,012,461</u>	<u>\$ 1,957,855</u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to the City. Protection of City cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the City's cash equivalents and deposits was \$5,012,461 and the bank balance was \$5,767,635. Of the bank balance, \$862,645 was covered by federal depository insurance, \$1,291,465 was collateralized by a Guaranty Bond held by the pledging financial institution, and \$3,613,545 was uninsured and uncollateralized. The component units had a bank balance of \$1,957,855 of which \$608,884 was insured, \$972,275 was collateralized by a Guaranty Bond held by the pledging financial institution and \$376,696 was uninsured and uncollateralized.

Investments

As of June 30, 2006 the City had the following investments in its governmental and agency funds' portfolio:

Investment Pool Accounts:	
MBIA – Class	<u>\$ 682,862</u>

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

As of June 30, 2006 the City had the following investments in its Pension Trust Fiduciary Fund's portfolio:

	<u>Fair Value</u>
Cash Management Funds	\$ 596,378
Fixed Income Securities:	
U.S. Government Obligations	346,269
U.S. Government Agencies	452,995
Corporate Obligations	2,602,610
Collateralized Mortgage Obligations	77,475
Equities:	
Common Stock	<u>4,330,501</u>
	<u>\$ 8,406,228</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the City may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business. All security transactions entered into by the City of Walker are required to be conducted on a delivery-versus-payment basis. Securities are required to be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

Credit Risk

The City's investments in the MBIA investment pool were unrated.

Interest Rate Risk

In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Concentration of Credit Risk

The City minimizes concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by allowing no more than sixty percent (60%) of the total current investment portfolio to be invested in any one type of security, or with a single financial institution. More than 5 percent of the City's investments in its Pension Trust Fund are in U.S. Government Agencies (5.39%), Corporate Obligations (30.96%) and Common Stock (51.52%).

Foreign Currency Risk

The City is not authorized to invest in investments which have this type of risk.

Note C – General Property Taxes

Property taxes for the City become due and payable on July 1 of each year, based on the taxable valuation of property as of the preceding December 31. County taxes become due and payable on July 1 and December 1 of

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

each year. School district taxes are payable July 1 and December 1 of each year, under a split-levy system, pursuant to the Michigan School Code of 1976. All taxes are returned delinquent March 1 of the following year.

City property tax revenues are recognized in the General Fund in the fiscal year levied, to the extent they are measurable and available. The 2005 property tax roll, levied July 1, 2005, represents revenue for the fiscal year ended June 30, 2006.

The City bills and collects its own taxes in addition to taxes for the State of Michigan, Kent County, Kent District Library, Interurban Transit Authority, Kent Intermediate School District, Grand Rapids Community College, Comstock Park Public Schools, Grandville Public Schools and Kenowa Hills Public Schools. The collection and remittance of taxes are accounted for in the Tax Account Agency Fund.

The City is permitted by election to levy up to 5 mills of general property taxes on the taxable valuation in the City, reduced to 4.0842 due to the effect of the Headlee Amendment. The actual tax levy approved by the City Commission was 1.336 mills for 2005-06 general operations.

The tax collection record of City taxes for the past year is shown in the following summary:

	<u>2005</u>	<u>2004</u>
City taxes levied	\$1,224,994	\$1,153,230
Taxes collected:		
Current to March 1	1,202,807	1,130,699
Total to June 30, 2006	1,221,100	1,148,446
Percentages of collections:		
Current to March 1	98.19%	98.05%
Total to June 30, 2006	99.68%	99.59%

Taxable property in the City is assessed initially by the assessing official of the City. These valuations are then equalized by the County and finally by the State of Michigan. Michigan statutes provide that all ad valorem taxes be levied upon State Equalized Valuation. In accordance with Act 409, Public Acts of 1965 and Article IX, Section 3 of the Michigan Constitution, State Equalized Valuation represents 50% of true cash value. The valuations of taxable property in the City for the prior year is compared with 2006 valuations in the following summary:

<u>Year</u>	<u>Real</u>	<u>Personal</u>	<u>Total</u>
2006	\$789,099,496	\$129,222,100	\$918,321,596
2005	788,750,197	129,269,960	918,020,157
2004	736,989,403	126,239,452	863,228,855

The State Equalized Valuations do not include valuation of certain facilities which are exempt under Act 198, Public Acts 1974 or Act 255, Public Acts 1978. These Acts are designed to provide stimulus in the form of significant tax incentives to industrial and commercial enterprises to renovate and expand aging facilities and to build new facilities in Michigan. Under the provisions of the Acts, a local governmental unit (city, village or township) in which the total property tax levy is at least 30 mills or in which a city income tax is levied may establish rehabilitation districts and industrial development districts to encourage restoration or replacement of obsolete facilities and to attract new plants to the area.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

An Industrial (Act 198) or Commercial Act (Act 255) Facilities Exemption Certificate entitles the facility to exemption from advalorem real and personal property taxes for a period of up to 12 years. In lieu of the property tax, the firm will pay a specific tax. The tax for an obsolete facility which is being restored or replaced is determined in exactly the same manner as the advalorem property tax, the important difference being that the state equalized valuation of the property remains at the level assessed on the obsolete facility prior to the improvements, even though the restoration or replacement substantially increases the true cash value of the facility. For a new facility being built in a rehabilitation or a development district, the tax is also determined the same as the advalorem property tax but instead of using the total mills levied as advalorem taxes, only half the millage rate is applied. The amount of the resulting tax thus is equal to 50% of the property tax which otherwise would be payable. The 2006 valuation of these certificates is compared with the prior year in the following exhibit.

Year	Real	Personal	Total
2006	\$ 47,620,300	\$ 48,358,350	\$ 95,978,650
2005	46,656,234	48,615,800	95,272,034
2004	44,371,586	29,264,400	73,635,986

Note D – Due From (To) Other Funds/Transfers In (Out)

Interfund receivables, payables and transfers during the year ended June 30, 2006 were as follows:

	Due From	Due To	Transfers In	Transfers Out	Purpose
Major Funds					
General Fund:					
Special Revenue Funds:					
Ice and Fitness Program Fund	\$ —	\$ —	\$ —	652,740	Debt service transfer
Debt Service Fund:					
1999 Debt Service Fund	—	—	—	641,703	Debt service transfers
Proprietary Fund:					
Internal Service Fund	—	—	—	330,080	Contrib. for capital assets
Fiduciary Funds:					
District Court Agency Fund	82,160	—	—	—	June, 2006 revenue transfer
Flexible Spending Fund	9,000	—	—	—	Operating cash advance
Total General Fund	90,160	—	—	1,624,523	
Special Revenue Funds:					
Major Streets Fund:					
Local Streets Fund	—	\$ —	\$ —	\$ 125,000	Annual budget transfer
Local Streets Fund:					
Major Streets Fund	—	—	125,000	—	Annual budget transfer
Ice and Fitness Program Fund:					
General Fund	—	—	652,740	—	Debt service transfers
1998 Debt Service Fund	—	—	—	669,240	Debt service transfers
Total Major Funds	91,160	—	777,740	2,418,763	

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

	Due From	Due To	Transfers In	Transfers Out	Purpose
Nonmajor Funds					
Debt Service Funds:					
1998 Debt Service Fund:					
Ice and Fitness Program Fund	\$ —	\$ —	\$ 669,240	\$ —	Debt service transfer
1999 Debt Service Fund:					
General Fund	—	—	641,703	—	Debt service transfers
Proprietary Fund:					
Internal Service Fund:					
General Fund	—	—	330,080	—	Contrib. for capital assets
Fiduciary Funds:					
District Court Agency Fund:					
General Fund	—	82,160	—	—	June, 2006 revenue transfer
Flexible Spending Agency Fund:					
General Fund	—	9,000	—	—	Operating cash advance
Total Nonmajor Funds	<u>—</u>	<u>91,160</u>	<u>1,641,023</u>	<u>—</u>	
Total All Funds	<u>\$ 91,160</u>	<u>\$ 91,160</u>	<u>\$2,418,763</u>	<u>\$2,418,763</u>	

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government

	Balances July 1, 2005	Additions	Sales/ Retirements	Balances June 30, 2006
Capital assets not depreciated:				
Land	\$ 2,820,745	\$ —	\$ —	\$ 2,820,745
Capital assets being depreciated:				
Roads and sidewalks	7,547,568	—	—	7,547,568
Land improvements	1,795,956	—	—	1,795,956
Buildings and improvements	21,094,804	—	—	21,094,804
Office furnishings	580,233	—	—	580,233
Other tools and equipment	6,684,047	225,813	104,437	6,805,423
Vehicles	1,094,575	141,372	229,257	1,006,690
Totals at historical cost	<u>41,617,928</u>	<u>\$ 367,185</u>	<u>\$ 336,694</u>	<u>41,651,419</u>
Less accumulated depreciation for:				
Roads and sidewalks	\$ 658,645	\$ 375,734	\$ —	\$ 1,034,379
Land improvements	635,413	90,856	—	726,269
Buildings and improvements	5,258,397	542,145	—	5,800,542
Office furnishings	371,005	51,825	—	422,830
Other tools and equipment	3,982,667	431,479	103,342	4,310,804
Vehicles	894,400	122,187	214,317	802,270
Total accumulated depreciation	<u>11,800,527</u>	<u>\$ 1,614,226</u>	<u>\$ 317,659</u>	<u>13,097,094</u>
Net Capital Assets	<u>29,817,401</u>			<u>\$28,554,325</u>

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

Depreciation expense was charged to City activities as follows:

General government	\$ 710,482
Judicial court	9,063
Police	207,856
Fire	151,194
Public works	192,753
Recreation and culture	<u>342,878</u>
	<u>\$ 1,614,226</u>

As of June 30, 2006, the City had \$603,708 in intangible assets, net of amortization. The entire balance relates to amounts paid on infrastructure not owned by the City.

Discretely Presented Component Units

Capital asset activity for the Downtown Development Authority (DDA) and the Brownfield Redevelopment Authority for the year ended June 30, 2006 was as follows:

	Balances July 1, 2005	Additions	Sales/ Retirements	Balances June 30, 2006
Capital assets not being depreciated:				
Land	\$ 1,154,378	\$ 125,000	\$ —	\$ 1,154,378
Construction in progress	620,092	701,571	590,132	731,531
Capital assets being depreciated:				
Roads and sidewalks	13,518	—	—	13,518
Land improvements	<u>55,839</u>	<u>—</u>	<u>—</u>	<u>55,839</u>
Totals at historical cost	<u>1,843,827</u>	<u>\$826,571</u>	<u>\$590,132</u>	<u>2,080,266</u>
Less accumulated depreciation for:				
Roads and sidewalks	\$ 7,976	\$ 4,778	\$ —	\$ 12,754
Land improvements	<u>5,552</u>	<u>2,974</u>	<u>—</u>	<u>8,526</u>
Total accumulated depreciation	<u>13,528</u>	<u>\$ 7,752</u>	<u>\$ —</u>	<u>21,280</u>
Net Capital Assets	<u>\$ 1,830,299</u>			<u>\$ 2,058,986</u>

Depreciation expense of the component units related solely to public works.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

Note F –Long-Term Debt

Amounts available and to be provided for long-term debt at June 30, 2006 are summarized as follows:

	Bond Issues	Installment Purchase Agreement	Capital Lease	Accumulated Sick Leave/ Vacation Pay	Total
Amounts Available For Retirement Of General Long-Term Debt					
Debt Service Funds	\$ 165,140	\$ —	\$ —	\$ —	\$ 165,140
Amounts To Be Provided For Retirement Of General Long-Term Debt					
General Fund	6,745,000	—	—	1,516,025	8,261,025
Special Revenue Funds:					
Major/Local Streets	1,730,000	—	—	213,238	1,943,238
Ice and Fitness Program Fund	6,210,000	—	—	19,518	6,229,518
Internal Service Fund	—	150,789	13,383	27,000	191,172
Debt Service Funds	(5,140)	—	—	—	(5,140)
Total Amounts Available and To Be Provided	\$14,845,000	\$ 150,789	\$ 13,383	\$ 1,775,781	\$16,784,953

Changes in long-term debt for the year ended June 30, 2006 are summarized as follows:

	Debt Outstanding July 1, 2005	Debt Added	Debt Retired	Debt Outstanding June 30, 2006
<u>Primary Government</u>				
Bond Issues				
Michigan Transportation Fund (LTGO):				
June 1, 2004	\$ 1,210,000	\$ —	\$ 65,000	\$ 1,145,000
June 1, 2006		585,000		585,000
Building authority (LTGO):				
June 1, 1998	6,700,000	—	6,300,000	400,000
December 1, 1999	6,855,000	—	5,450,000	1,405,000
November 2, 2005		5,340,000		5,340,000
March 9, 2006		5,810,000		5,810,000
Special assessment:				
Series 1996 - B	195,000	—	35,000	160,000
Installment Purchase Agreement				
April 4, 2005	192,122	—	41,333	150,789
Capital lease				
July 15, 2005	—	38,913	25,530	13,383
Accumulated vacation pay	381,071	382,277	359,173	404,175
Accumulated sick leave	1,224,167	293,752	146,313	1,371,606
Total Primary Government	\$ 16,757,360	\$ 12,449,942	\$ 12,422,349	\$ 16,784,953

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

	Debt Outstanding July 1, 2005	Debt Added	Debt Retired	Debt Outstanding June 30, 2006
<u>Discretely Presented Component Units</u>				
Bond Issues				
Downtown Development Authority:				
June 1, 1993	\$ 325,000	\$ —	\$ 160,000	\$ 165,000
October 1, 2004	605,000	—	30,000	575,000
June 1, 2006	—	2,360,000	—	2,360,000
Loan				
Brownfield Redevelopment DEQ:				
March 10, 2004	265,100	—	23,935	241,165
Land Contract				
Downtown Development Authority:				
December 8, 2005	—	125,000	2,949	122,051
Installment Purchase Agreement				
Downtown Development Authority:				
December 9, 2004	240,000	—	25,000	215,000
Total Component Units	\$ 1,435,100	\$ 2,485,000	\$ 241,884	\$ 3,678,216

Long-term bonds, loans, land contracts, capital leases and installment purchase agreements at June 30, 2006 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
<u>Primary Government</u>				
Michigan Transportation Fund Bonds (LTGO)				
\$1,270M 2004 Road Improvement:				
Annual maturities of \$65M to \$115M	June 1, 2019	2.90 - 4.35	\$1,145,000	\$ 65,000
\$585M 2006 Road Improvement:				
Annual maturities of \$35M to \$55M	June 1, 2019	3.85 - 4.55	585,000	35,000
Building Authority Bonds (LTGO)				
\$8,270M 1998 Ice Arena:				
Annual maturity of \$400M	May 1, 2007	4.60	400,000	400,000
\$8,165M 1999 Building Improvement:				
Annual maturities of \$325M to \$380M	May 1, 2010	5.15 - 5.20	1,405,000	325,000
\$5,340M 2005 Refunding:				
Annual maturities \$25M to \$630M	May 1, 2020	3.00 - 5.00	5,340,000	25,000
\$5,810M 2006 Refunding:				
Annual maturities of \$430M to \$650M	May 1, 2018	3.75 - 5.00	5,810,000	—

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

	<u>Final Maturity Dates</u>	<u>Interest Rates</u>	<u>Outstanding Balance</u>	<u>Amount Due Within One Year</u>
Special Assessment Bonds				
\$475M 1996 Water and Sewer Improvement: Annual maturities of \$30M to \$35M	Dec. 1, 2011	5.00 - 5.40	160,000	35,000
Installment Purchase Agreement				
\$230,470 2005 Fire Equipment: Annual maturities of \$43M to \$62M	June 1, 2009	4.45	150,789	43,198
Capital Lease				
\$38,913 2005 Maintenance Equipment: Annual maturity of \$13,383	July 15, 2007	3.21	<u>13,383</u>	<u>13,383</u>
Total Primary Government			<u>\$15,009,172</u>	<u>\$ 941,581</u>
<u>Discretely Presented Component Units</u>				
Downtown Development Authority Bonds (LTGO)				
\$1,550M 1993 Downtown Improvement: Annual maturity of \$165M	May 1, 2007	4.80	165,000	165,000
\$605M 2004 Downtown Improvement: Annual maturities of \$30M to \$55M	May 1, 2020	2.45 - 4.30	575,000	30,000
\$2,360M 2006 Downtown Improvement: Annual maturities of \$100M to \$190M	May 1, 2023	4.00 - 4.125	2,360,000	100,000
Loan				
\$295M 2004 Brownfield Redevelopment DEQ: Annual maturities of \$24M to \$29M	Mar. 10, 2015	2.25	241,165	24,474
Land Contract				
\$125M 2005 DDA Property Purchase: Annual Maturities of \$5M to \$86M	Nov. 1, 2011	4.55	122,051	5,081
Installment Purchase Agreement				
\$240M 2004 DDA Property Purchase: Annual maturities of \$30M to \$45M	Nov. 1, 2011	4.55	<u>215,000</u>	<u>30,000</u>
Total Component Units			<u>\$ 3,678,216</u>	<u>\$ 354,555</u>

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

The annual requirements to pay principal and interest on long-term bonds, installment purchase agreements and capital leases outstanding for the Primary Government are as follows:

Year Ended June 30	Principal	Interest	Total
2007	\$ 941,581	\$ 693,043	\$ 1,634,624
2008	975,134	613,969	1,589,103
2009	1,032,457	572,079	1,604,536
2010	1,010,000	527,436	1,537,436
2011	1,060,000	483,468	1,543,468
2012	1,070,000	438,531	1,508,531
2013	1,110,000	396,841	1,506,841
2014	1,160,000	342,464	1,502,464
2015	1,225,000	285,456	1,510,456
2016	1,285,000	225,242	1,510,242
2017	1,345,000	167,392	1,512,392
2018	1,395,000	113,083	1,508,083
2019	770,000	56,677	826,677
2020	630,000	25,200	655,200
	<u>\$ 15,009,172</u>	<u>\$ 4,940,881</u>	<u>\$ 19,950,053</u>

The annual requirements to pay principal and interest on long-term bonds, loans, land contracts and installment purchase agreements outstanding for the Component Units are as follows:

Year Ended June 30	Principal	Interest	Total
2007	\$ 354,555	\$ 140,885	\$ 495,440
2008	190,472	133,986	324,458
2009	206,428	126,869	333,297
2010	212,424	119,084	331,508
2011	223,465	110,966	334,431
2012	239,550	102,304	341,854
2013	278,480	89,549	368,029
2014	198,599	79,903	278,502
2015	209,242	72,430	281,672
2016	185,000	64,505	249,505
2017	190,000	56,988	246,988
2018	205,000	49,220	254,220
2019	210,000	40,790	250,790
2020	225,000	32,065	257,065
2021	175,000	22,687	197,687
2022	185,000	15,469	200,469
2023	190,000	7,837	197,837
	<u>\$ 3,678,216</u>	<u>\$ 1,265,536</u>	<u>\$ 4,934,752</u>

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

On November 2, 2005, the City issued \$5,340,000 in general obligation bonds with a net interest cost of 3.94115% to advance refund \$5,145,000 of outstanding 1999 general obligation bonds with a net interest cost of 5.191%, resulting in a net present value savings of \$206,889. The net proceeds (\$5,429,853 after premium of \$204,874 and payment of \$115,021 in underwriter's discount, insurance and other issuance costs) were deposited with an escrow agent and used to purchase United States government securities. Under the terms of the agreement these securities, together with the interest earned to maturity, will be sufficient to pay principal and interest as it becomes due. This procedure relieves the City from being primarily liable for the debt and the City is virtually assured of not being required to make further payments with respect to the debt. These funds are not commingled with other funds and cannot be redeemed prior to maturity. Any excess funds will be returned to the City upon final payment of principal and interest (Scheduled to be May 1, 2010). This defeasance procedure allows the City to remove the related assets and liabilities from its financial statements, which it has done. The assets, now held by the escrow agent to be used for the remaining principal and interest due of \$6,217,670 on the defeased debt at June 30, 2006 are detailed in the following schedule:

	<u>Cost</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Government Securities	<u>\$ 5,397,698</u>	<u>\$ 5,397,698</u>	<u>\$ 5,397,698</u>

On March 9, 2006, the City issued \$5,810,000 in general obligation bonds with a net interest cost of 3.84590% to advance refund \$5,920,000 of outstanding 1998 general obligation bonds with a net interest cost of 4.50%, resulting in a net present value savings of \$314,922. The net proceeds (\$6,075,105 after premium of \$256,314, City contribution of \$116,000 and payment of \$107,209 in underwriter's discount, insurance and other issuance costs) were deposited with an escrow agent and used to purchase United States government securities. Under the terms of the agreement these securities, together with the interest earned to maturity, will be sufficient to pay principal and interest as it becomes due. This procedure relieves the City from being primarily liable for the debt and the City is virtually assured of not being required to make further payments with respect to the debt. These funds are not commingled with other funds and cannot be redeemed prior to maturity. Any excess funds will be returned to the City upon final payment of principal and interest (Scheduled to be May 1, 2007). This defeasance procedure allows the City to remove the related assets and liabilities from its financial statements, which it has done. The assets, now held by the escrow agent to be used for the remaining principal and interest due of \$6,196,270 on the defeased debt at June 30, 2006 are detailed in the following schedule:

	<u>Cost</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Government Securities	<u>\$ 5,971,229</u>	<u>\$ 5,971,229</u>	<u>\$ 5,971,229</u>

Note G – Post Employment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 34 retirees are eligible. The City includes pre-Medicare retirees in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums come due; during the year, this amounted to approximately \$140,350.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

Future Reporting Change – The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. This new pronouncement will be effective for the year ending June 30, 2009.

Note H – Retirement Plans

The City maintains two separate retirement plans, as follows:

Defined Contribution Plan

The City provides pension benefits to substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City contributes 10 percent of employees’ eligible earnings, as defined in the plan document. In accordance with these requirements, the City contributed \$329,208 during the year ended June 30, 2006. In addition, employee contributions amounted to \$61,940 during the year ended June 30, 2006.

Defined Benefit Pension Plan

Plan Description

The City contributes to the City of Walker Pension Plan (the “Plan”), which is a single-employer defined-benefit pension plan that is administered by Huntington Bank. The Plan, which was closed to new participants on December 31, 1998, provides retirement and death benefits to Plan members and their beneficiaries. At August 1, 2004, the date of the actuarial valuation, membership consisted of 41 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 49 current active employees. The Plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Please refer to Note A for further significant accounting policies.

The funding policy, in accordance with a resolution of the City Commission, provides for periodic employer contributions at actuarially determined rates. Administrative costs of the Plan are financed through investment earnings.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

Annual Pension Cost

For the year ended June 30, 2006, the City's annual required pension cost and actual contribution was \$751,067. For the year ended June 30, 2005, the City's annual pension cost and actual contribution was \$684,635. For the year ended June 30, 2004 the City's annual pension cost and actual contribution was \$582,637. For the years ended June 30, 2003 and 2002, the City's annual pension costs were \$894,339 and the actual contributions were equal to \$642,029 resulting in a net pension obligation of \$252,310 at June 30, 2006. The annual required 2005-06 contribution was determined as part of an actuarial valuation at August 1, 2004, using the aggregate actuarial cost method. Significant actuarial assumptions include an 8.5 percent investment rate of return and projected salary increases of 4.5 percent per year, both of which include an inflation component. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility. The use of the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Reserves

As of June 30, 2006, the Plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$994,863
Reserve for retired benefit payments	317,905

Required Supplementary Information

Three-year trend information as of August 1 follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension costs (APC)	\$524,829	\$582,637	\$684,635
Percentage of APC contributed	100%	100%	100%
Net pension obligation	252,310	252,310	252,310

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (Uaal) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll
08/01/96	\$7,505,705	\$7,505,705	\$ —	100	\$3,022,987	—
08/01/97	8,951,117	8,951,117	—	100	3,422,638	—
08/01/98	9,963,271	9,963,271	—	100	3,635,336	—
08/01/99	8,644,124	8,644,124	—	100	1,876,019	—
08/01/00	9,054,434	9,054,434	—	100	2,283,413	—
08/01/01	9,158,698	9,158,698	—	100	2,402,080	—
08/01/02	8,129,856	8,129,856	—	100	2,528,844	—
08/01/03	7,770,966	7,770,966	—	100	2,522,964	—
08/01/04	7,849,926	7,849,926	—	100	2,469,416	—
08/01/05	8,228,311	8,228,311	—	100	2,589,442	—

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Actuarial Valuation Date	Actual Required Contribution	Percentage Contributed
1997	08/01/95	\$ 369,020	100.0
1998	08/01/96	415,186	100.0
1999	08/01/97	467,099	100.0
2000	08/01/98	465,432	100.0
2001	08/01/99	369,510	100.0
2002	08/01/00	524,829	59.0
2003	08/01/01	524,829	93.0
2004	08/01/02	582,637	100.0
2005	08/01/03	684,635	100.0
2006	08/01/04	751,067	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of August 1, 2004, the latest actuarial valuation, follows:

Actuarial cost method	Aggregate
Amortization method	N/A
Amortization period (perpetual)	N/A
Asset valuation method	2-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases	4.5%

Voluntary Early Retirement Incentive Benefit

As of February 10, 2003, the City has adopted a voluntary early retirement incentive plan whereby participants who have attained age 55 and completed five years of service, or at any age has completed 20 years of service, and who voluntarily resigns from employment will be eligible. The amount of the participant's benefit is the participant's accrued benefit as of the effective retirement date, unreduced, and will be calculated with an additional two years of credited service added to the total number of years of credited service. As of June 30, 2006, the City has not recorded an associated liability with this plan.

Note I – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for coverage on the risk of loss related to property loss and errors and omissions. The City has purchased commercial insurance for coverage of health care claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2006

Note J – Stewardship, Compliance and Accountability

The following City funds had actual expenditures and transfers out exceed final budgeted figures for the year ended June 30, 2006:

	Budget	Actual	Unfavorable Variance
Special Revenue Funds			
Local Streets Fund	\$ 598,385	\$ 603,524	\$ 5,139
DDA Streetscape Maintenance Fund	93,000	106,379	13,379

Note K – Construction Code Fees

The City oversees building construction in accordance with the State of Michigan's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall – July 1, 2005	\$ (254,848)
Current year building permit revenue	298,114
Related expenses:	
Direct costs	355,729
Estimated indirect costs	<u>51,581</u>
Total construction code expenses	<u>407,310</u>
Cumulative shortfall – June 30, 2006	<u><u>\$ (364,044)</u></u>

SUPPLEMENTAL INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

CITY OF WALKER
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue		
	Special Vice	DDA	DDA
Assets	Investigation	Streetscape	Parking Lot
Cash equivalents, deposits and investments	\$ 189,185	\$ 46,742	\$ 27,763
Special assessments receivable	-	40,891	5,369
Accrued interest receivable	2,173	-	-
Total Assets	\$ 191,358	\$ 87,633	\$ 33,132
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 10,722	\$ -
Deferred revenue	-	40,891	5,369
Total Liabilities	-	51,613	5,369
Fund Balances			
Reserved for:			
Debt service	-	-	-
Unreserved:			
Undesignated, reported in:			
Special revenue funds	191,358	36,020	27,763
Total Fund Balances	191,358	36,020	27,763
Total Liabilities and Fund Balances	\$ 191,358	\$ 87,633	\$ 33,132

Debt Service				
1991-B	1996-B	1998	1999	Total
\$ 29,519	\$ 127,092	\$ 4,311	\$ 3,521	\$ 428,133
1,970	24,100	-	-	72,330
-	700	-	-	2,873
<u>\$ 31,489</u>	<u>\$ 151,892</u>	<u>\$ 4,311</u>	<u>\$ 3,521</u>	<u>\$ 503,336</u>
\$ -	\$ -	\$ -	\$ -	\$ 10,722
1,973	24,100	-	-	72,333
<u>1,973</u>	<u>24,100</u>	<u>-</u>	<u>-</u>	<u>83,055</u>
29,516	127,792	4,311	3,521	165,140
-	-	-	-	255,141
<u>29,516</u>	<u>127,792</u>	<u>4,311</u>	<u>3,521</u>	<u>420,281</u>
<u>\$ 31,489</u>	<u>\$ 151,892</u>	<u>\$ 4,311</u>	<u>\$ 3,521</u>	<u>\$ 503,336</u>

CITY OF WALKER
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2006

	Special Revenue		
	DDA		
	Special Vice Investigation	Streetscape Maintenance	DDA Parking Lot
Revenues			
Intergovernmental sources	\$ 18,200	\$ -	\$ -
Interest and rentals	7,987	2,749	1,714
Other revenue	-	66,479	52,573
Total Revenues	<u>26,187</u>	<u>69,228</u>	<u>54,287</u>
Expenditures			
Current:			
Judicial court	43,814	-	-
Public works	-	106,379	44,175
Debt service:			
Principal repayment	-	-	-
Interest and fiscal charges	-	-	-
Bond issuance costs	-	-	-
Underwriter's discount	-	-	-
Total Expenditures	<u>43,814</u>	<u>106,379</u>	<u>44,175</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(17,627)</u>	<u>(37,151)</u>	<u>10,112</u>
Other Financing Sources (Uses)			
Bonds issued	-	-	-
Bond premium	-	-	-
Transfers in	-	-	-
Payments to escrow agent	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(17,627)</u>	<u>(37,151)</u>	<u>10,112</u>
Fund Balances, July 1	<u>208,985</u>	<u>73,171</u>	<u>17,651</u>
Fund Balances, June 30	<u>\$ 191,358</u>	<u>\$ 36,020</u>	<u>\$ 27,763</u>

Debt Service				
1991-B	1996-B	1998	1999	Total
\$ -	\$ -	\$ -	\$ -	\$ 18,200
1,673	9,094	754	729	24,700
2,766	10,624	-	-	132,442
4,439	19,718	754	729	175,342
-	-	-	-	43,814
-	-	-	-	150,554
-	35,000	380,000	305,000	720,000
-	9,403	173,240	338,202	520,845
-	-	66,464	78,099	144,563
-	-	37,765	34,710	72,475
-	44,403	657,469	756,011	1,652,251
4,439	(24,685)	(656,715)	(755,282)	(1,476,909)
-	-	5,810,000	5,340,000	11,150,000
-	-	256,314	204,874	461,188
-	-	669,240	641,703	1,310,943
-	-	(6,075,105)	(5,429,853)	(11,504,958)
-	-	660,449	756,724	1,417,173
4,439	(24,685)	3,734	1,442	(59,736)
25,077	152,477	577	2,079	480,017
\$ 29,516	\$ 127,792	\$ 4,311	\$ 3,521	\$ 420,281

CITY OF WALKER
Special Vice Investigation Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Charges for services	\$ 40,000	\$ 18,200	\$ (21,800)
Interest and rentals	-	7,987	7,987
Total Revenues	<u>40,000</u>	<u>26,187</u>	<u>(13,813)</u>
Expenditures			
Current:			
District court	230,000	43,814	186,186
Net Change in Fund Balances	(190,000)	(17,627)	172,373
Fund Balances, July 1	<u>208,985</u>	<u>208,985</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 18,985</u></u>	<u><u>\$ 191,358</u></u>	<u><u>\$ 172,373</u></u>

CITY OF WALKER
DDA Streetscape Maintenance Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Interest and rentals	\$ 1,550	\$ 2,749	\$ 1,199
Other	95,000	66,479	(28,521)
Total Revenues	96,550	69,228	(27,322)
Expenditures			
Current:			
Public works	93,000	106,379	(13,379)
Net Change in Fund Balances	3,550	(37,151)	(40,701)
Fund Balances, July 1	73,171	73,171	-
Fund Balances, June 30	\$ 76,721	\$ 36,020	\$ (40,701)

CITY OF WALKER
DDA Parking Lot Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Interest and rentals	\$ 310	\$ 1,714	\$ 1,404
Other	56,000	52,573	(3,427)
Total Revenues	56,310	54,287	(2,023)
Expenditures			
Current:			
Public works	53,000	44,175	8,825
Net Change in Fund Balances	3,310	10,112	6,802
Fund Balances, July 1	17,651	17,651	-
Fund Balances, June 30	<u>\$ 20,961</u>	<u>\$ 27,763</u>	<u>\$ 6,802</u>

AGENCY FUNDS

District Court Agency—to account for fines and forfeitures collected and the disbursement to the governmental agencies entitled to the monies.

Trust Account Agency—to account for the collection of bonds and deposits and payment to the governmental units or other persons entitled to receive these funds.

Tax Account Agency—to account for the collection of current and delinquent property taxes and payment to the governmental units or other persons entitled to receive these funds.

Flexible Spending Agency—to account for the collection of employee payroll withholding to be used for medical expense reimbursements.

Other Agency—to account for the collection of various monies to be disbursed to the organizations and individuals entitled to the monies.

CITY OF WALKER
All Agency Funds
Combining Schedule of Changes in Assets and Liabilities
For the year ended June 30, 2006

	<u>Balances July 1, 2005</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balances June 30, 2006</u>
District Court				
<i>Assets</i>				
Cash equivalents, deposits and investments	<u>\$ 137,389</u>	<u>\$ 1,582,732</u>	<u>\$ 1,573,294</u>	<u>\$ 146,827</u>
<i>Liabilities</i>				
Bond and escrow deposits	\$ 33,037	\$ 229,440	\$ 234,991	\$ 27,486
Due to other funds	65,578	82,160	65,578	82,160
Due to other governmental units	<u>38,774</u>	<u>1,271,131</u>	<u>1,272,724</u>	<u>37,181</u>
Total Liabilities	<u>\$ 137,389</u>	<u>\$ 1,582,731</u>	<u>\$ 1,573,293</u>	<u>\$ 146,827</u>
Tax Account				
<i>Assets</i>				
Cash equivalents, deposits and investments	<u>\$ 145,084</u>	<u>\$ 36,094,006</u>	<u>\$ 36,134,979</u>	<u>\$ 104,111</u>
<i>Liabilities</i>				
Accounts payable	\$ 232	\$ -	\$ 232	\$ -
Due to other governmental units	<u>144,852</u>	<u>36,094,006</u>	<u>36,134,747</u>	<u>104,111</u>
Total Liabilities	<u>\$ 145,084</u>	<u>\$ 36,094,006</u>	<u>\$ 36,134,979</u>	<u>\$ 104,111</u>
Trust Account				
<i>Assets</i>				
Cash equivalents, deposits and investments	\$ 1,443,868	\$ 821,518	\$ 1,602,740	\$ 662,646
Accounts receivable	39,928	-	39,928	-
Accrued interest receivable	<u>-</u>	<u>950</u>	<u>-</u>	<u>950</u>
Total Assets	<u>\$ 1,483,796</u>	<u>\$ 822,468</u>	<u>\$ 1,642,668</u>	<u>\$ 663,596</u>
<i>Liabilities</i>				
Bond and escrow deposits	<u>\$ 1,483,796</u>	<u>\$ 822,468</u>	<u>\$ 1,642,668</u>	<u>\$ 663,596</u>
Flexible Spending				
<i>Assets</i>				
Cash equivalents, deposits and investments	<u>\$ 11,875</u>	<u>\$ 67,471</u>	<u>\$ 68,145</u>	<u>\$ 11,201</u>
<i>Liabilities</i>				
Accounts payable	\$ 2,875	\$ 67,471	\$ 68,145	\$ 2,201
Due to other funds	<u>9,000</u>	<u>-</u>	<u>-</u>	<u>9,000</u>
Total Liabilities	<u>\$ 11,875</u>	<u>\$ 67,471</u>	<u>\$ 68,145</u>	<u>\$ 11,201</u>

(Continued)

CITY OF WALKER
All Agency Funds
Combining Schedule of Changes in Assets and Liabilities
For the year ended June 30, 2006

	<u>Balances July 1, 2005</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balances June 30, 2006</u>
Other				
<i>Assets</i>				
Cash equivalents, deposits and investments	<u>\$ 6,062</u>	<u>\$ 4,808,414</u>	<u>\$ 4,798,961</u>	<u>\$ 15,515</u>
<i>Liabilities</i>				
Bond and escrow deposits	<u>\$ 6,062</u>	<u>\$ 4,808,414</u>	<u>\$ 4,798,961</u>	<u>\$ 15,515</u>
 Totals - All Agency Funds				
<i>Assets</i>				
Cash equivalents, deposits and investments	\$ 1,744,278	\$ 43,374,141	\$ 44,178,119	\$ 940,300
Accounts receivable	39,928	-	39,928	-
Accrued interest receivable	-	950	-	950
Total Assets	<u>\$ 1,784,206</u>	<u>\$ 43,375,091</u>	<u>\$ 44,218,047</u>	<u>\$ 941,250</u>
<i>Liabilities</i>				
Accounts payable	\$ 3,107	\$ 67,471	\$ 68,377	\$ 2,201
Due to other funds	74,578	82,160	65,578	91,160
Due to other governmental units	183,626	37,365,137	37,407,471	141,292
Bond and escrow deposits	<u>1,522,895</u>	<u>5,860,322</u>	<u>6,676,620</u>	<u>706,597</u>
Total Liabilities	<u>\$ 1,784,206</u>	<u>\$ 43,375,090</u>	<u>\$ 44,218,046</u>	<u>\$ 941,250</u>

OTHER INFORMATION

CITY OF WALKER
Summary of 2005 Taxes Levied and Collected
For the year ended June 30, 2006

	<u>Taxable Valuation</u>	<u>Rate (Mills)</u>	<u>Taxes Levied</u>	<u>Returned Delinquent</u>	<u>Current * Collections</u>
Ad Valorem Taxes					
Kent County					
Operating	\$918,020,157	5.3140	\$4,872,462	\$120,949	\$4,751,513
Kent District Library	918,020,157	0.8800	806,869	22,000	784,869
Interurban Transit Authority	918,020,157	0.9500	871,056	15,823	855,233
State Education Tax					
Comstock Park Public Schools	11,092,763	6.0000	66,556	1,152	65,404
Grandville Public Schools	163,183,108	6.0000	979,091	25,227	953,864
Kenowa Hills Public Schools	743,744,286	6.0000	4,455,986	73,563	4,382,423
			<u>5,501,633</u>	<u>99,942</u>	<u>5,401,691</u>
School Districts					
Kent Intermediate School District	918,020,157	4.6453	4,259,434	77,377	4,182,057
Grand Rapids Community College	918,020,157	1.7865	1,638,076	29,757	1,608,319
Comstock Park Public Schools:					
Other	11,092,763	9.1621	101,632	1,759	99,873
Operating	4,745,011	18.0000	85,410	2,296	83,114
Grandville Public Schools:					
Other	163,183,108	6.1130	997,527	25,702	971,825
Operating	53,308,748	18.0000	959,556	39,176	920,380
Kenowa Hills Public Schools:					
Other	743,744,286	3.3600	2,498,950	41,195	2,457,755
Operating	471,491,537	18.0000	8,467,465	140,528	8,326,937
Total School Districts			19,008,050	357,790	18,650,260
City of Walker					
Operating	918,020,157	1.3360	1,224,994	22,187	1,202,807
DDA assessments			18,862	13,850	5,012
Special assessments			5,092	1,837	3,255
Delinquent sewer and water charges			6,678	872	5,806
Tax administration fees			323,069	6,271	316,798
Total City			<u>1,578,695</u>	<u>45,017</u>	<u>1,533,678</u>
Total Ad Valorem Taxes			<u>\$32,638,765</u>	<u>\$661,521</u>	<u>\$31,977,244</u>

(Continued)

CITY OF WALKER
Summary of 2005 Taxes Levied and Collected
For the year ended June 30, 2006

Tax Abatements	Taxable Valuation	Rate (Mills)	Taxes Levied	Returned Delinquent	Current * Collections
Kent County	\$ 95,272,034	2.65700	\$ 250,346	\$ -	\$ 250,346
Kent District Library	95,272,034	0.44000	41,457	-	41,457
Interurban Transit Authority	95,272,034	0.47500	44,755	-	44,755
State Education Tax:					
Kenowa Hills Public Schools	95,272,034	6.00000	540,619	-	540,619
Kent Intermediate School District	95,272,034	2.32265	218,845	-	218,845
Grand Rapids Community College	95,272,034	0.89325	84,164	-	84,164
Kenowa Hills Public Schools:					
Operating	95,272,034	1.68000	160,056	-	160,056
Other	95,272,034	9.00000	873,415	-	873,415
City of Walker:					
Operating	95,272,034	0.66800	62,940	-	62,940
Tax administration fees			22,764	-	22,764
Total Tax Abatements			\$2,299,361	\$ -	\$2,299,361

* Current collections include ad valorem and abated taxes collected for and distributed to the City of Walker Downtown Development Authority and Brownfield Redevelopment Authority. The following amounts were withheld from the various taxing units and remitted to the above referenced entities:

Kent County	\$ 154,170
Kent District Library	25,530
Interurban Transit Authority	27,562
State Education Tax	44,927
Grand Rapids Community College	50,848
Kent Intermediate School District	51,830
Grandville Public Schools	106,053
Kenowa Hills Public Schools	22,421
City of Walker:	
Operating	38,760
Total captures	\$ 522,101

Hungerford, Aldrin, Nichols & Carter, P.C.

CPAs AND CONSULTANTS

October 13, 2006

The City Commission
City of Walker
Kent County, Michigan

The following comments pertain to our audit of the financial records of the City of Walker as of and for the year ended June 30, 2006. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected misstatements (passed audit adjustments).

The communications specified by the Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the City's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of the City of Walker.

Auditors Responsibility Under Generally Accepted Auditing Standards

We conducted our audit in accordance with Generally Accepted Auditing Standards (GAAS). Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. We are required by GAAS to obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing and extent of tests to be performed. The purpose of the audit was to report on the financial statements and not to provide assurance on the internal control structure. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Walker are described in Note A of the Notes to Basic Financial Statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in auditing the records of the City for the year ended June 30, 2006. City personnel in both the Finance and Treasurer's departments are maintaining a timely, accurate and efficient record keeping system.

Significant Audit Adjustments

During the course of our audit the following adjustments of a significant nature were made to the accounting records of the City to bring the balances to those presented in the financial statements. The adjustments required were those typically made in prior years as a part of the audit process. These adjustments have been entered into the City's computer accounting system by City accounting personnel to bring City records into agreement with audited balances.

General Fund

1. \$325,015 to record the amount receivable from the State of Michigan for the May/June, 2005 revenue sharing payment.

1999 Debt Service Fund

1. \$665,000 to reclassify the entry made to pay an inter-fund transfer due at June 30, 2004.

There were no adjustments proposed during the audit not recorded by City of Walker.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the City computer and accounting systems to the City Manager, Finance Manager, Treasurer, and accounting personnel of the City as the topics arose during the course of our audit field work. Hopefully, these suggestions will improve the operations of the City and assist in more efficient monthly and year end financial record keeping and reporting. Other suggestions that merit discussion follow:

1. Expenditures in the General Fund and the Major and Local Streets and Ice and Fitness Program Special Revenue Funds exceeded budgeted figures for the 2004-05 fiscal year. It is important to review expenditures in all budgeted City funds near year end, and amend budgeted figures if necessary, to comply with Michigan Department of Treasury regulations.

* * * * *

This communication is intended solely for the information and use of the City of Walker Commission, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Treasury as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to the City of Walker and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the City Manager, Finance Manager, Treasurer and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communication, we will be happy to address them.

Hungerford, Alden, Nichols & Carter, P.C.

Certified Public Accountants